ANNUAL REPORT 1989

NEWFOUNDLAND
LIQUOR
CORPORATION

93-02658/

NEWFOUNDLAND
LIQUOR
CORPORATION

Honourable Dr. Hubert Kitchen
Minister of Finance
Government of Newfoundland & Labrador
Confederation Building
St. John's, Newfoundland
A1C 5T7

Dear Dr. Kitchen:

I am pleased to submit the 16th annual report of the Newfoundland Liquor Corporation.

The report summarizes the Corporation's activities during the fiscal year ending March 31, 1989 and outlines a financial comparison with the previous year.

We gratefully acknowledge the contribution of all the Corporation's employees whose positive efforts contributed to our progress during the past year.

Yours very truly,

DOUGLAS M. CHAFE, C.M.A.
President.

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FINANCE

During the fiscal year ended March 31, 1989, the Corporation realized a net income of $79,752,913, an increase of $2,399,905 over the previous year. This income was derived from two sources:

1. $39,952,199 from sale of spirits, wines and beer through Corporation liquor stores and liquor agency stores; and,

2. $39,800,714 through the collection of a Corporation mark-up on local beer.

Corporation liquor store and agency store operations resulted in sales of $93,960,481, an increase of $3,907,686 over the previous year. Income from beer commissions totalled $39,800,714, an increase of $993,356 over the previous year. Operating and administrative expenses for 1988-89 totalled $13,476,476, an increase of $988,862 over the previous year.

STORE OPERATIONS

Service to the public and to licensees is provided through a retail network of thirty-seven liquor stores and fifty-five agency stores. These outlets are continually upgraded to improve customer service and convenience. This year, substantial renovations were made to the Mount Pearl store and both Corner Brook stores, resulting in greater shopping convenience and an increased selection of products. Plans for major changes to the Stephenville store and the St. John's Topsail Road store have been formulated to take effect in the next fiscal year.

Agency store operators, which now represent 25% of the Corporation's sales, are also improving their premises, and significant expansion and remodelling occurred at agencies in Bay Bulls, Cow Head, Stephenville Crossing, and Port Saunders, while a new agency operator opened in Badger.

The introduction of new products continued, and the Corporation's total selection now stands at more than twelve hundred items. This wide selection, combined with in-store promotions designed to attract and inform customers, was well received by consumers. Peach Schnapps and spirit coolers showed major gains in market shares, although total sales of wines and spirits showed only modest increases for the year.

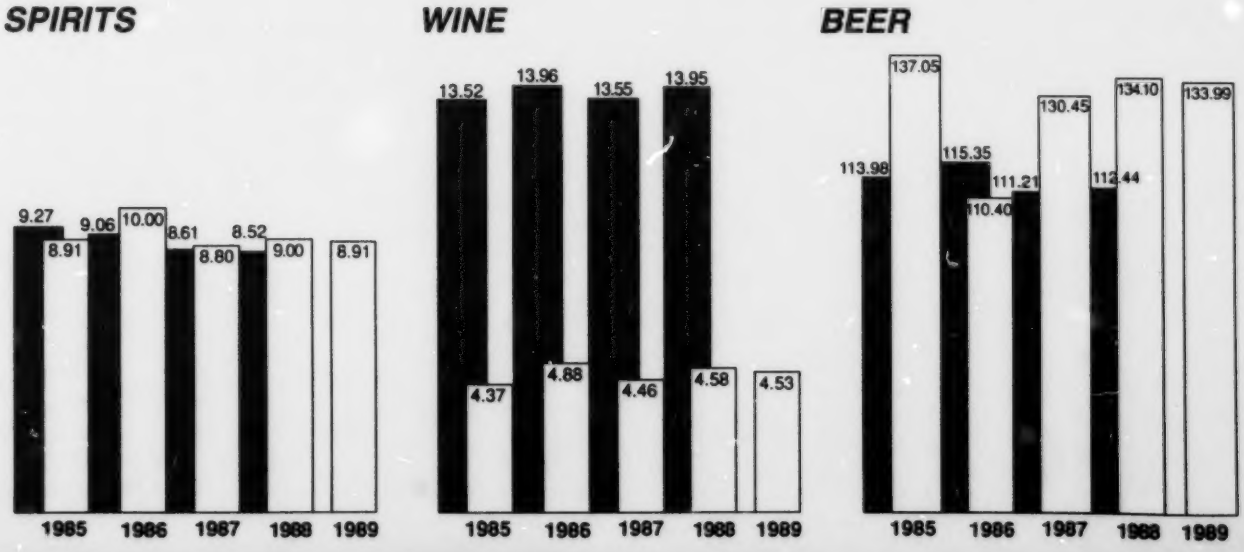
A larger number of mid-priced specialty wines were introduced in response to growth in demand for these product types. A consumer price list was printed and distributed through all outlets to assist customers in their selection. The Corporation's Wine Consultant conducted wine lectures and tastings for the public in Corner Brook and Gander; and several suppliers' consultants conducted seminars and tastings for Corporation staff and the trade in St. John's.

Training of store staff continued, with seminars for all management employees covering a broad range of topics, and selected management personnel attended familiarization courses at wineries and distilleries in Ontario. Separate regional meetings were conducted to inform Store Managers of changes in the new Collective Agreement.

Monitoring of product quality resulted in the removal of several brands from the market again this year - either due to product deterioration or product/package defects. Prompt action by suppliers, Corporation staff, and the efficient exchange of information of product defects between Canadian liquor jurisdictions minimized any potential problems for consumers.

Per Capita Consumption
Litres
Fiscal year ended March 31, 1989
By population 19 years of age and over

Provincial Average
National Average



PRODUCTION & DISTRIBUTION

Production of locally bottled products for other suppliers and for the Corporation's own brands returned to normal levels of 120,000 cases. This was a result of improved transportation modes for bulk spirits and increased storage capacity because of the installation of additional stainless steel storage tanks.

Sales of locally produced brands of spirits and wine to other provinces increased by 16% to over 43,000 cases, even though the total Canadian spirit market did not exhibit any growth.

Several new products were produced by the Bottling Plant, including "El Dorado" Golden Rum for the Guyana Liquor Corporation, miniature (50 ml.) contracts for two new suppliers, a 1.75 litre size in plastic of "London Dock" rum specifically for the Nova Scotia market, and a new and more realistic ceramic Newfoundland dog container for "Screech". This latter item was designed and manufactured entirely by local craftspeople.

The increased variety of flavours of coolers and selection of wine specialties have been assimilated well into the central warehouse system. Excellent co-operation between the Store Operations ordering and the Product Supply department purchasing patterns, has maintained optimum inventories and an efficient distribution system.

HUMAN RESOURCES

A new Collective Agreement between the Corporation and the Newfoundland Association of Public Employees was signed on December 19, 1988 and will expire on March 31, 1990. Contract talks went to conciliation; however, all issues were resolved and an agreement was reached.

A major focus of the Human Resource Department during the year was to finalize the user requirements for a new Human Resource Information System. This system will provide current and accurate data as well as faster access to information and will contribute to the Department providing better service to the Corporation and its employees.

Continued training and education is emphasized throughout the Corporation and many employees have taken the initiative themselves along with the financial support of the Corporation to upgrade their existing levels of education.

INTERNAL AUDIT

The Internal Audit Department, answering directly to the President and with a staff of seven, has an ongoing responsibility to analyze systems making recommendations for improvements, as well as testing for compliance to existing policies and procedures, so that management will better achieve their prime objective, of an efficient and effective operation. To meet this objective, the Department employs modern auditing techniques and visits all 37 stores and 55 agency stores at least once annually.

Internal Audit has also been involved at the development stages of various projects throughout the Corporation to ensure required control features are in place and to add an impartial opinion which crosses all dimensions of the Corporation's activities.

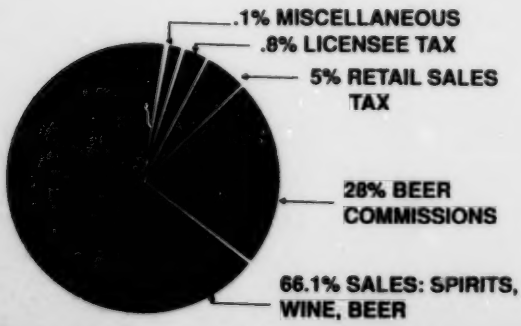
PROPERTY

The property at 75 O'Leary Avenue, immediately behind the Corporation's head office on Kenmount Road in St. John's, was purchased - increasing the value of both properties by providing more efficient use of land between the two and providing alternative accesses and egresses for both. The main building on the O'Leary Avenue property was renovated and now houses the Newfoundland Liquor Licensing Board. An additional warehouse is used for storage of glass supplies.

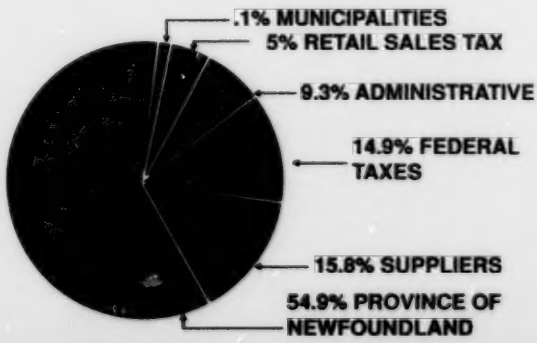
The Corporation also acquired the property at 11 Commonwealth Avenue, Mount Pearl to enlarge the store that had previously been leased at that location. The completely renovated and expanded store will be ready early in the spring at which time it will provide service twelve hours a day, six days a week.

The Corportation gratefully acknowledges the effort and co-operation of the employees and the support of the Board of Directors.

SOURCE OF REVENUE



APPLICATION OF REVENUE



Auditor's Report

To the President and Members
Newfoundland Liquor Corporation
St. John's, Newfoundland

I have examined the balance sheet of the Newfoundland Liquor Corporation as at 31 March 1989 and the statements of income, retained earnings and changes in cash position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at 31 March 1989 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

J.F. McGrath, C.A.
Auditor General

St. John's, Newfoundland
24 August 1989

Balance Sheet, March 31, 1989

Assets

	1989	1988
Current Assets		
Cash	$ 6,156,845	$ 5,029,490
Accounts receivable (Note 2)	674,070	575,283
Beer commissions receivable	3,863,134	3,632,440
Inventories, at cost (Note 3)	14,157,923	14,366,027
Prepaid expenses	220,649	157,011
Total current assets	25,072,621	23,760,251
Fixed assets, at cost less accumulated depreciation (Note 4)	5,030,031	2,179,601
Assets under capital lease, at cost less accumulated amortization of $192,561 (1988 - $128,686)	126,176	190,051
Other assets, at cost less accumulated amortization (Note 5)	495,987	604,583
Total assets	$30,724,815	$26,734,486

Liabilities and Retained Earnings

Current Liabilities		
Accounts payable	$3,599,882	$3,366,057
Accrued liabilities	3,690,796	3,720,954
Current portion of obligation under capital lease (Note 6)	78,457	67,008
Current portion of long-term debt (Note 7)	400,000	400,000
Total current liabilities	7,769,135	7,554,019
Obligation under capital lease (Note 6)	69,450	147,150
Long-term debt (Note 7)	3,100,000	1,000,000
	10,938,585	8,701,169
Retained earnings		
Due to Province of Newfoundland	19,786,230	18,033,317
Total liabilities and retained earnings	$30,724,815	$26,734,486

See accompanying notes

Signed on behalf of the Board

President

Director

Statement of Retained Earnings
For the Year Ended March 31, 1989

	1989	1988
Balance, beginning of year	$18,033,317	$20,680,309
Net income for the year	79,752,913	77,353,008
	97,786,230	98,033,317
Payments to the Province of Newfoundland	78,000,000	80,000,000
Balance, end of year	$19,786,230	18,033,317

See accompanying notes

Statement of Income
For the Year Ended March 31, 1989

	1989	1988
Sales	$93,960,481	$90,052,795
Cost of goods sold		
Inventory, beginning of year	14,366,027	14,811,508
Purchases	41,656,136	39,778,831
Cost of goods available for sale	56,022,163	54,590,339
Less: Inventory, end of year	14,157,923	14,366,027
	41,864,240	40,224,312
Gross profit	52,096,241	49,828,483
Other operating income		
Commission on licensee purchases	1,180,019	1,086,237
Miscellaneous	152,415	118,544
	1,332,434	1,204,781
	53,428,675	51,033,264
Administrative and operating expenses (Schedule 1)	13,476,476	12,487,614
Net income from liquor store operations	39,952,199	38,545,650
Commission revenue on sale of beer	39,800,714	38,807,358
Net income for the year	79,752,913	77,353,008

See accompanying notes

Statement of Changes in Cash Position
For the Year Ended March 31, 1989

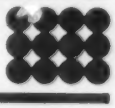
	1989	1988
Cash provided by (used in) operating activities		
Net income from liquor store operations	$39,952,199	$38,545,650
Commission revenue on sale of beer	39,800,714	38,807,358
Add: Items of non-cash nature		
Depreciation	373,121	302,718
Amortization	409,422	265,016
Loss (gain) on disposal of fixed assets	(556)	(3,088)
Changes in non-cash working capital	30,101	(934,436)
	80,565,001	76,983,218
Deduct: Payments to the Province of Newfoundland	78,000,000	80,000,000
	2,565,001	(3,016,782)
Cash provide by (used in) financing activities		
Proceeds from disposal of fixed assets	2,028	3,790
Proceeds from capital lease	-	40,342
Proceeds from long-term debentures	2,500,000	-
Payments under capital lease (including current portion)	(77,700)	(74,749)
Repayments of long-term debentures (including current portion)	(400,000)	(400,000)
	2,024,328	(430,617)
Cash provided by (used in) investing activities		
Additions to fixed assets	(3,225,023)	(331,057)
Additions to assets under capital lease	-	(40,342)
Additons to other assets	(236,951)	(300,792)
	(3,461,974)	(672,191)
Increase (decrease) in cash flow during the year	1,127,355	(4,119,590)
Cash, beginning of year	5,029,490	9,149,080
Cash, end of year	$6,156,845	$5,029,490

See accompanying notes

Schedule of Administrative and Operating Expenses

For The Year Ended March 31, 1989

	1989	1988
Salaries and employee benefits	$7,196,675	$6,777,965
Rent	737,334	751,079
Freight to stores	273,557	268,829
Agency store commissions and expenses	1,921,243	1,765,842
Municipal and school tax	193,300	93,881
Travel	132,943	128,435
Heat and light	303,067	288,502
Cleaning	178,487	171,820
Communications	144,313	141,811
Advertising	14,299	12,185
Computer services	43,685	50,541
Directors' fees and expenses	8,025	8,807
Interest and bank charges	44,762	31,636
Motor vehicle expenses	3,322	2,466
Consultants' fees	27,257	92,370
Security	67,442	65,057
Store supplies and wrapping	97,422	95,826
Stationery and office supplies	119,067	130,092
Postage	35,252	36,984
Repairs and maintenance	234,101	327,105
Inventory breakage and shortage	91,093	103,061
Marketing	226,810	132,173
Dues and subscriptions	9,586	8,276
Insurance	43,300	42,821
Professional fees	41,549	11,233
Depreciation	335,162	262,968
Amortization	409,422	265,016
Uniforms	53,126	59,119
Staff recruitment	16,602	4,937
Staff training	73,639	74,227
Miscellaneous	23,399	38,762
Labour negotiations and grievances	13,058	148
Loss (gain) on disposal of fixed assets	(556)	(3,088)
Bad debt expense	15,910	11,481
Interest on long term debt	348,823	235,247
	$13,476,476	$12,487,614



1. **Accounting policies**

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

(a) Fixed assets are capitalized at cost at the time of acquisition. Depreciation is recorded over the expected useful life of the asset on a straight line basis at the following rates:

Buildings	5%
Store equipment and fixtures	20%
Motor vehicle	33⅓%
Office furniture and equipment	10% and 20%
Plant and warehouse equipment	20% and 33⅓%

Depreciation is recorded on a monthly basis with depreciation of an asset commencing in the month of acquisition and ending in the month prior to disposal.

The Blending Department's share of depreciation and amortization expense amounting to $37,959 ($47,934—1988) is allocated to cost of goods sold.

(b) Leasehold improvements are amortized on a straight line basis over the terms of the individual leases which range from 1 to 20 years.

Following is a schedule of amortization of leasehold improvements by location:

	1989	1988
Head office	$ 188,595	$ 60,414
Other locations	148,588	136,407
	$337,183	$196,821

(c) Interest in leased land as described in Note 5 is amortized on a straight line basis over the initial 30 year term. The amount charged to operations in 1989 was $8,364 ($8,364—1988).

(d) The equipment under the capital lease is amortized on a straight line basis over the term of the lease. The amount charged to operations in 1989 was $63,875 ($59,833—1988)

(e) Federal taxes on inventory held in bond at year end are included in head office inventory and related liability accounts. As at 31 March the following amounts were included in accrued liabilities:

	1989	1988
Customs duty	$ 1,680,372	$ 1,662,922
Excise duty	902,071	1,071,294
Federal Sales Tax	360,404	400,962
	$ 2,942,847	$ 3,135,178

(f) The Corporation is a Crown Corporation and is therefore not subject to either Provincial or Federal income taxes.

2. **Accounts receivable**

	1989	1988
Trade	$ 540,609	$ 402,523
Claims	115,792	155,299
Other	25,318	30,050
	681,719	587,872
Less: Allowance for doubtful accounts	7,649	12,589
	$ 674,070	$ 575,283

3. **Inventories**

	1989	1988
Raw materials	$ 1,243,937	$ 999,570
Head office inventory	4,599,185	4,995,579
Branch stores inventory	4,691,274	4,695,987
Stock in transit	846,112	933,072
Finished goods	2,777,415	2,741,819
	$14,157,923	$14,366,027

4. Fixed assets

	Cost	Accumulated Depreciation	Net Book Value 1989	Net Book Value 1988
Land	$ 1,162,841	$ —	$ 1,162,841	$ 190,281
Buildings	4,152,285	1,142,386	3,009,899	1,351,357
Store equipment and fixtures	1,039,685	626,863	412,822	205,164
Motor vehicle	15,426	14,153	1,273	6,420
Office furniture and equipment	654,963	458,532	196,431	216,755
Plant and warehouse equipment	1,336,097	1,089,332	246,765	209,624
	$ 8,361,297	$ 3,331,266	$ 5,030,031	$ 2,179,601

5. Other assets

	Cost	Accumulated Amortization	Net Book Value 1989	Net Book Value 1988
Leasehold improvements	$ 2,813,924	$ 2,500,283	$ 313,641	$ 413,873
Leased land	248,925	66,579	182,346	190,710
	$ 3,062,849	$ 2,566,862	$ 495,987	$ 604,583

6. Obligation under capital lease

The following is a schedule of future minimum lease payments under the capital lease expiring 12 January 1991 together with the balance of the obligation under capital lease:

Year ending 31 March	
1990	$ 96,096
1991	74,190
Total minimum lease payments	$ 170,286
Less: Amount representing interest	22,379
Current portion	78,457
	$ 69,450

7. Long-term debt

	1989	1988
A 12⅛%, $2,000,000 debenture, issued to the National Trust Company Limited as Trustee for Prudential Insurance Company of America and transfered to Canada trust repayable in ten equal consecutive annual principal instalments of $200,000 commencing on 30 June 1984 and semi-annual interest payments on 30 June and 30 December, commencing 30 December 1983. The debenture is guaranteed unconditionally as to principal and interest by the Province of Newfoundland.	**$ 1,000,000**	$ 1,200,000
An 11⅞%, $1,000,000 debenture, initially issued to the Mutual Life Assurance Company of Canada and presently held by Lake & Co., repayable in five equal consecutive annual principal instalments of $200,000 commencing on 27 March 1985 and semi-annual interest payments on 27 March and 27 September, commencing 27 September 1984. The debenture is guaranteed unconditionally as to principal and interest by the Province of Newfoundland.	—	200,000
An 11 7/20%, $1,500,000 debenture, issued to Brant Investments and held by National Trust, repayable in fifteen equal consecutive annual principal instalments of $100,000 commencing on 1 November 1989 and semi-annual interest payments on 1 May and 1 November, commencing 1 May 198[illegible] The debenture is guaran[illegible] unconditionally as to principal and interest by the Province of Newfoundland.	**$1,500,000**	—

7. **Long-term debt (Cont.)**

	1989	1988
An 10 ¾%, $1,000,000 debenture, issued to Brant Investments and held by Royal Trust Company, repayable in ten equal consecutive annual principal instalments of $100,000 commencing on 15 June 1989 and semi-annual interest payments on 15 December and 15 June, commencing 15 December 1988. The debenture is guaranteed unconditionally as to principal and interest by the Province of Newfoundland.	$1,000,000	—
	3,500,000	1,400,000
Less: Current portion	400,000	400,000
	$ 3,100,000	$ 1,000,000

8. **Related party transactions**

(a) The Corporation is leasing office and warehouse space rent free from a Crown Corporation, B.L.C. Building Corporation Limited; however, all operating and maintenance costs related to the building are the responsibility of the Corporation.

(b) The Corporation is leasing retail space for its Bell Island branch rent free from the Department of Public Works and Services; however, all operating and maintenance costs related to the building are the responsibility of the Corporation.

9. **Lease commitments**

The Corporation has leases on file with terms ranging from 1 to 20 years covering retail outlets. Annual lease obligations during the next 5 years are as follows:

1990	$675,963
1991	459,843
1992	352,341
1993	259,022
1994	216,803
	$ 1,963,972

10. **Pensions**

The Public Service (Pensions) (Newfoundland Liquor Corporation) Regulations, 1974, made the Corporation and its staff subject to The Public Service (Pensions) Act with effect from 26 June 1973. Pension dues deducted from employees' salaries are matched by the Corporation and then remitted to the Province of Newfoundland Pooled Pension Fund from which pensions will be paid to employees when they retire.

BOARD OF DIRECTORS

Douglas M. Chafe, C.M.A., F.S.M.A.C.
President

Keith Griffiths
Vice-President, Operations

A.L. White, P.Eng.
Director
(Representing Government of Newfoundland,
Treasury Board)

Gilbert C. Gill, C.A.
Director
(Representing Government of Newfoundland,
Dept. of Finance)

Edward White
Director
(Chairman, Newfoundland Liquor Licencing Board)

Charles W. White, Q.C.
Director

Edward P. Poole, Q.C.
Director

Brenda Billard
Director